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E.O. 12958: DECL: 11/17/2017
TAGS: ENRG ETTC PREL PK IN IR
SUBJECT: PAKISTAN, INDIA APPEAR TO HAVE AGREED ON PRICE
FORMULA; AGREEMENT POSSIBLE NOVEMBER 9

REF: ISLAMABAD 4578

Classified By: Deputy Chief of Mission Peter W. Bodde, reasons 1.5 (b)
and (d)

¶1. (C) Summary: Pakistan and Iran are very close to signing a bilateral gas pipeline deal, now that the gas pricing issue is resolved, according to November 8 press reports. Pakistan has also reportedly won the ability to resell Iranian gas to both India and Pakistan. Imported Iranian gas would be approximately half the price of gas produced in Pakistan. A high-level GOP delegation was dispatched to Teheran to sign an agreement before its return November 10, following GOP approval of the conditions, according to the press. Our contact at the Ministry of Petroleum and Natural Resources acknowledged that a high-level delegation was in Teheran but could not confirm or deny whether an agreement would be signed. As this is the fourth negotiating session since late July, the fact that a Secretary was dispatched to Teheran during the state of emergency is indicative of the importance Pakistan places on finalizing an agreement with Iran. End summary.

¶2. (U) November 8 press reports indicate that Pakistan and Iran have reached agreement on a pricing formula for gas sold from the potential $3.6 billion Iran-Pakistan gas pipeline. We understand that both sides have agreed to a gas pricing mechanism based on the Japanese crude and LNG benchmark. Both sides also agreed to revisit the pricing mechanism in
¶2015. Press reports also indicate that Iran was intent on including a clause to review gas pricing, and that Pakistan appears to have won the right to resell gas to both India and China. Pakistan and Iran are expected to finalize the gas deal in Tehran on November 9.

¶3. (U) Pakistan has informed Iran that it is ready to import five billion cubic feet of gas per day through a 56 inch pipeline, according press reports. Pakistan plans to build a LNG facility at the Gwadar port where the proposed pipeline from the South Pars field to the Iranian border and then across Balochistan is likely to terminate. According to press reports, the the piped gas could be converted into LNG for export to western China via a proposed rail line.

¶4. (C) We spoke with Ministry of Petroleum and Natural Resources Senior Joint Secretary Jahangir Khan November 8, who confirmed that the senior-level delegation is in Tehran and plans to return November 10. He cited on-going negotiations as why he could neither confirm nor deny today's press reports. The Pakistani delegation, headed by Secretary of the Ministry of Petroleum and Natural Resources Furrukh Qayyum, left for Teheran shortly after the pipeline agreement was approved by the GOP Cabinet's Economic Coordinating Committee to seal the gas sales purchase agreement (GPSA)

with the Iranian authorities. Khan is well aware of our position regarding conclusion of any gas deal with Iran and possible pipeline construction.

¶5. (C) Comment: Given that the Secretary was permitted to travel during the state of emergency, Pakistan is placing great importance on moving forward with this deal. Pakistan and Iran have been edging closer during four negotiating sessions over the past few months, and the pricing issue is one of the last major stumbling blocks (although there are still issues to be worked out). Under the proposed gas deal, we have been told that gas imported from Iran would cost approximately half the price of locally-produced gas, making this deal -- particularly without the added complication of India -- particularly attractive. The GOP is not factoring in pipeline construction or added security costs for construction across Balochistan in these price calculations, but may hope to recoup its share of construction and security costs through gas sales to India and China. End comment.
PATTERSON